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C O N F I D E N T I A L SECTION 01 OF 02 ACCRA 001978

SIPDIS

E.O. 12958: DECL: 10/03/2009

TAGS: [FAIR](#) [EINV](#) [GH](#)

SUBJECT: UPDATE ON U.S. INVESTOR'S PLANS TO TAKE OVER FOR GHANA AIR

REF: A. ACCRA 1786

- [1](#)B. ACCRA 1703
- [1](#)C. ACCRA 1683
- [1](#)D. ACCRA 1644
- [1](#)E. ACCRA 1583
- [1](#)F. ACCRA 1550

Classified By: Economic Chief Chris Landberg for Reasons 1.5 (B and D)

Summary

[1](#)1. (C) Charge and EconChief met with Amcit representatives of Ghana International Air (GIA) to discuss its agreement with the Government of Ghana (GoG) to create a new airline to take over Ghana Air's routes. GIA reps confirmed that the GoG and GIA have agreed to form a partnership, with the GoG taking a 70 percent stake in the new company and GIA taking 30 percent with full operational control. The GoG will be responsible for Ghana Air's debt and employees. GIA will seek equity investments to fund equipment purchases and aircraft leases. It intends to take over Ghana Air's U.S., Europe and regional routes early in 2005. The deal has generated much local skepticism and opposition, including from the IMF and Ghana Air's management. Post raised its own concerns during the meeting. End Summary

GIA Reps Outline Deal with Government

[1](#)2. (C) Charge and EconChief met September 24 with Kirk Heaton, Executive Vice President of Sentry Financial Corporation, which handles financial arrangements for GIA. Heaton was in Ghana representing the U.S. investors behind GIA, led by SkyWest Airline founder Ralph Atkin. GIA signed a Letter of Intent with the GoG on September 1 to create an airline company to take over the routes currently flown by national air carrier Ghana Air (Note: see reftels for background on Ghana Air. End Note). This new airline, to be named later, will not take over Ghana Air, so will not have responsibility for Ghana Air's employees or financial liabilities.

[1](#)3. (C) Under the Letter of Intent, the GoG agrees to wind down Ghana Air in preparation for a hand off to a new airline in early 2005. This will entail valuing Ghana Air's assets, dealing with Ghana Air's employees, and assuming Ghana Air's estimated USD 160 million debt.

[1](#)4. (C) The GoG will initially own 70 percent of the new airline. GIA will take a 30 percent stake, but will retain full operational control. Heaton stated the GoG will have seats on the board of directors, but will participate as a "silent partner." Both sides agreed to put up an initial investment of USD 7 million, split 70/30, as operating capital.

[1](#)5. (C) GIA is working to raise an additional USD 30 to 50 million from equity partners, targeting three types of investors: 1) strategic partners, mainly other airlines; 2) aircraft leasing companies; and 3) pure equity investors. The outside equity will dilute the GoG and GIA's holdings, lowering the GoG's stake below 50 percent. GoG Transport Minister Richard Anane has discussed diluting GoG ownership further by floating shares on the Ghana Stock Exchange.

[1](#)6. (C) The GoG has "ring fenced" the USD 160 million debt, and will handle all negotiations with creditors (Note: Post has heard that up to two thirds of the debt is owed to GoG or quasi-GoG institutions, and only about USD 70 million is owed to outside creditors. End Note). The GoG has agreed to lay off Ghana Air's estimated 1200 to 1600 employees. GIA will poach Ghana Air's best employees, including most of its pilots, and its goal is to operate Ghana Air's routes with fewer than 250 employees.

[1](#)7. (C) GIA has also agreed to "consider" purchasing some of Ghana Air's assets from the GoG. Given that Ghana Air is flying all its routes with leased aircraft, its assets are likely to have minimal value. The GoG has stated it will liquidate the assets that GIA does not want.

Timeline

[1](#)8. (C) GIA is coordinating with Ghana Civil Aviation Authority (GCAA) to register and certify the new airline.

Heaton said GIA would submit the appropriate application to GCAA within 60-90 days and estimated the GCAA would take two months to approve it. GIA will use this period to raise the equity, hire employees, train pilots, and lease six Boeing aircraft (two each for the U.S., Europe, and regional routes). After a few years of operations, GIA will approach OPIC and EximBank for assistance with a second round of financing to expand the fleet. GIA will immediately seek to establish linkages and join alliances with other airlines, with the goal of making the new airline the company of choice to partner with for flights to Africa.

Local Reaction

9. (C) Post has found few supporters of this deal outside government. There are allegations of lack of transparency in the bidding process. KLM, which bid on the deal but dropped out, argues that the Transport Ministry did not specify that the GoG would assume Ghana Air's USD 160 million debt. Ex Ghana Air CEO, Philip Owusu, alleges that GIA has "secret" Ghanaian partners, who are the true force behind this deal. He claims that only GIA knew the GoG would assume the debt, so the deal was fixed from the start.

10. (C) Other local observers, especially in the media, argue that GIA does not have the capacity or financial wherewithal to build a strong Ghanaian airline. A frequently heard criticism is that the GoG should have chosen an established airline to save Ghana Air. Ghana Air's current management argues this, and lobbied President Kufuor to oppose the GIA deal and instead support a Ghana Air partnership with Ethiopia Air.

11. (C) IMF Resident Representative Alpha Muttardi also opposes the arrangement, and has lobbied the GoG to drop the deal. She told EconChief that GoG assumption of the debt could undermine the IMF program. Heaton claims President Kufuor personally intervened to conclude the deal with GIA, so the IMF's lobbying may have little effect.

Comment

12. (C) Charge and EconChief urged Heaton and GIA investors to research the problems other investors have experienced in Ghana. Most recent disputes with the GoG resulted at least in part because the investors did not adequately document the division of rights and obligations with the GoG. This may become a problem with the current deal. GIA decided to sign a letter of intent with the GoG, rather than signing an agreement that would require Parliamentary approval. Although GIA did this on purpose to avoid Parliamentary delays, an approved agreement would provide more security to the investors. GIA's tentative agreement to consider buying Ghana Air assets may also ultimately be problematic. GoG officials consider verbal assurances tantamount to obligations, and have created obstacles to investors who failed to follow through on the purchase of local equipment.

13. (C) GIA is following the old model of working directly with the President, and is keeping its intentions (and identity of its investors) close-hold. However, Ghana Air is one of the more controversial subjects in Ghana, and as Kaiser Aluminum has discovered a deal with the President does not protect you from the other powerful forces in this increasingly decentralized democracy. Cabinet Ministers, Parliamentarians, bureaucrats and private parties are increasingly influential, and GIA's many opponents may be waiting for their opportunity to undercut the new airline.

14. (C) EconChief alerted Heaton of the impending FAA reassessment of civil aviation safety oversight, which could result in a downgrade to Category Two. Heaton said he was well aware of the upcoming FAA visit and has offered technical assistance to the GoG and GCAA to help them retain Category One. End Comment

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